

BEFORE THE INSURANCE COMMISSIONER
OF THE STATE OF WASHINGTON

In the Matter of the Application regarding
the Conversion and Acquisition of
Control of Premera Blue Cross and its
Affiliates.

No. G 02-45

PREFILED TESTIMONY OF JAMES
JOHNSEN

I am James Johnsen. I am Vice President for Faculty and Staff Relations for the University of Alaska. As the chief human resources officer for the University of Alaska System, I am responsible for procuring benefits provided to University employees, including health care benefits.

The University is the statewide institution of higher learning in Alaska with over 33,000 students in Fairbanks, Anchorage, Juneau and thirteen smaller campuses throughout Alaska. The University is one of the largest employers in the State of Alaska, with 4000 benefit-eligible employees across the state.

From 1998 to 2003, I served as Chief of Staff for the University of Alaska. In that position, I was responsible for advising the president on a wide variety of student services, academic, human resources, facilities, research, budget, and other matters; communicating on behalf of the president; serving on the president's executive cabinet; and coordinating the operations of the president's office. I therefore have knowledge of the University's programs, funding sources and budget process.

PREFILED TESTIMONY OF JAMES JOHNSEN

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I graduated from the University of California, Santa Cruz, and have a master's degree in political science from the University of Chicago. I am working on a doctorate in higher education management at the University of Pennsylvania.

The health care claims of the University's approximately 4000 benefit-eligible employees and their dependents have been administered by Premiera Blue Cross since 1995. We are currently nearing the end of a second consecutive five-year contract. When the University put its health care benefit contract out to bid in 1999, Premiera was the only bidder. The next five-year contract will be put out to bid in the near future. The University and its employees will clearly be affected by any change in the availability or rates for its health care benefit.

The University spends approximately \$24,000,000 per year in employee health benefits. University employees spend approximately \$8,000,000, as employees contribute to the cost of their health care benefit in an amount largely dictated by the claim payments in excess of the University's defined contribution. According to the reports I have read, the conversion will likely result in a premium rate increase of from one to five percent. A one percent increase in rates is projected to increase the University's costs by as much as \$240,000 per year. Increased costs will impair the University's ability to fulfill its educational mission on behalf of the state.

The University currently receives approximately 40% of its funding from the state's general fund through the legislative appropriation process. The Legislature has already indicated that it will not fund the University's increasing contribution for its employee health benefits. An increase in the University's costs without a corresponding increase in revenue has an impact on the programs that the University can offer to its 33,000 students. For example, a \$1,200,000 unfunded cost increase could result in the

loss of up to twenty faculty positions, which in turn could result in the elimination of 140 course sections, potentially impacting the academic progress of thousands of our students .

My testimony relates to specific conditions that the Commissioner should place on Premera if the conversion is approved. The conditions should include adequate economic assurances to protect the University and other consumers from conversion-related increases in rates or passed-on administrative expenses. I support an assurance period of longer than two years in order to reduce the conversion's effect on the affordability of insurance coverage, whether that comes in insurance premiums or increased costs of administrative expenses.

I support appropriate funding for the foundations that will be created if the conversion is approved. In order for the conversion to be fair and equitable, the conversion proceeds must be appropriately distributed between the states of Alaska and Washington for funding and support of health care initiatives. I have read the Reden & Anders and Signal Hill Capital reports and understand that these experts conclude that Alaska's share of the conversion proceeds should be in the range of 24 to 29.6%.

At this time, not all of the reports of the expert consultants are publicly available. I may have additional testimony when more information about the conversion is available.

I declare under penalty of perjury of the laws of the State of Alaska that the foregoing is true and correct.

Dated this 31st day of March, 2004.

/s/
James Johnsen